THE SILVER SITUATION.

PROFESSOR TAUSSIG'S statement of the Silver Situation in the United States in the April number of the *Quarterly* is timely and accurate to a degree. A few words additional may be of interest, although of much less importance than his.

The laws of the United States authorize the Treasury Department to receive deposits of standard silver dollars and to issue certificates therefor in denominations of one dollar and upwards, and to receive gold coin and to issue certificates therefor in denominations of twenty dollars and upwards. The only restriction upon these issues is that noted by Professor Taussig in the Act of 1882, "that the Secretary of the Treasury shall suspend the issue of such gold certificates whenever the amount of gold coin and bullion in the Treasury reserved for the redemption of United States notes [greenbacks] falls below one hundred millions of dollars." What is the reason for such a limitation as this? How is the United States harmed by giving its warehouse receipt for gold actually deposited when its greenback redemption fund is only ninety-nine millions, and not harmed when the fund is one hundred millions?

This question and some cognate ones formed the staple of debate in the Senate on the 16th of May last. Senator Plumb had offered an amendment to the pending silver bill, providing that "hereafter no funds available for the payment of the public debt, including such as are kept for the redemption of Treasury notes, shall be retained in the Treasury in excess of $110,000,000." Senator Sherman opposed this amendment on the ground that it would leave only $10,000,000 in the Secretary's hands as a work-

ing balance. This he considered altogether too small. Mr. Plumb did not think that the amendment was subject to that construction. Mr. Sherman said that the amount to be held for the redemption of United States notes was fixed by law at $100,000,000, and that as to that fund the Secretary had no discretion. Mr. Plumb and Mr. Cockrell called for the proof of this statement; and Mr. Sherman cited the paragraph quoted above from the Act of 1882, and also the specie resumption Act of 1875, which authorized the Secretary to sell bonds for resumption purposes, and required him to redeem United States notes in coin on and after January 1, 1879. Mr. Plumb and Mr. Cockrell maintained that neither of these provisions of law fixed any particular sum to be held in permanence for the redemption of greenbacks.

Nearly the entire day was spent in debating this point, and at the conclusion nobody's preconceived opinion had been changed. Mr. Aldrich produced, for Mr. Cockrell's confusion, the form of monthly Treasury Statement issued under the Cleveland administration; but Mr. Cockrell refused to be confused by it, saying: "Do you propose every time you do a bad act and commit a wrong to turn round and say some Democrat did that? . . . There is no politics in the matter we are discussing now." Senator Ingalls took part in the debate, supporting the contention of his colleague, Mr. Plumb, and maintaining positively that the $100,000,000 fund was never held in the Treasury as a reserve at all, but was simply an unsegregated portion of the general fund in the Treasury. Replying to Senator Edmunds on this point, Mr. Ingalls said:—

The Senator from Vermont is ordinarily entirely accurate. This is the first time in the course of our long acquaintance that I ever knew him to be mistaken, but in this particular he is mistaken. It will not do to say that the daily balance in the Treasury in gold coin never receded below the hundred-million point. That is not the question. It was a daily balance all the time; and the fact is beyond the possi-

bility of contradiction that it is impossible, and has always been impossible, from that day to this, to identify a single dollar of the gold that was put in the Treasury as a reserve fund for the redemption of United States notes.

Reference to the proceedings in the Senate on 21st June, 1882 * (which nobody who took part in this debate of May 16 seems to have thought of), will show the following facts: —

(1) That the clause in the Act of 1882 quoted above was originally proposed by Senator Aldrich in order to prevent the holders of greenbacks from drawing gold from the Treasury, redepositing it there, and taking gold certificates therefor, all at one operation, thereby gradually becoming possessed of all the gold in the Treasury and at the same time using the government's vaults as a free safe depository.

(2) That upon the motion of Senator Ingalls the phraseology of Mr. Aldrich's amendment was changed so as to make the $100,000,000 fund *a special reserve in gold for the redemption of United States notes.* Two changes of phraseology were made for this declared purpose, one by

* When the Senate had under consideration the twelfth section of the act of June, 1882, by which the issue of gold certificates was authorized, Mr. Aldrich offered, with the approval of the Finance Committee, this amendment:

"*Provided*, That the Secretary of the Treasury may, in his discretion, suspend the issue of such certificates whenever the amount of gold coin and gold bullion in the Treasury available for the redemption of United States notes falls below $100,000,000."

Mr. Allison explained that "the object of the amendment is that there shall not come into the Treasury greenbacks for gold, and then the gold in turn be redeposited and gold certificates taken. That is the idea that was presented here by those who feared that the effect of the twelfth section would be that the greenbacks would gradually be converted into gold certificates."

He added that "thus far there has been no absolute definition of what the reserve fund shall amount to," clearly implying that it was now intended to supply the definition. Mr. Ingalls thereupon objected that the proviso would have no effect, because (1) it did not prevent the Secretary of the Treasury from reducing the fund below $100,000,000; (2) it contained "the vicious and untenable idea that the entire amount of money in the Treasury day by day, at the close of business, is a fund there for the redemption of United States

substituting the word "reserved" for the word "applicable," and the other by substituting the word "shall" for the words "may, in his discretion."

(3) That up to this time there had been no legal determination of the amount of the greenback redemption fund.

It follows that the clause in the Act of 1882 did justify Mr. Jordan (the Treasurer of the United States under the Cleveland administration) in putting the $100,000,000 of gold coin and bullion in the monthly Treasury Statement as a fund "reserved for the redemption of United States notes." It follows also that Mr. Sherman was right in his contention with Mr. Plumb and Mr. Cockrell in the debate of May 16, and that Mr. Edmunds was right in his colloquy with Mr. Ingalls.

This debate of June 21, 1882, be it remembered, took place four years after the present silver coinage act was passed. It shows that, when Congress was not expressly legislating for or about silver, it understood that the greenbacks were to be redeemed in gold, just as, under like conditions and circumstances, it understood that the word "coin" in the acts authorizing the issue of bonds

notes." He moved, therefore, to substitute for "available" the word "reserved." Mr. Aldrich pointed out that the proviso, as phrased by him, had not been meant to fix a fund, but to protect the Treasury gold, so that at least $100,000,000 should always be held as a fund reserved for redeeming United States notes. He had no objection to a change which only made the proviso stronger, remarking that he "did not know that the gentlemen on the other side, or those feeling as the gentleman from Kansas does in this matter, would be willing to go to that extent." Mr. Ingalls's amendment was thereupon accepted. Mr. Ingalls then moved to amend further, "by striking out that portion of the proviso which gives the Secretary of the Treasury discretion to infringe on the fund by inserting the word 'shall.' I wish to make the language more specific, so as to read: 'That the Secretary of the Treasury *shall* suspend the issue of such gold certificates.'" This amendment also was accepted; and with these changes, which obviously strengthened the proviso and whose history shows a clear intention to set aside a fund for the definite purpose of redeeming United States notes, the proviso went on the statute-book See the *Congressional Record*, *47th Congress*, *First Session*, vol. xiii., Part 5, pp. 5165–5169.

meant gold coin.* Senators Bayard, Beck, Cockrell, Coke, Davis (of West Virginia), Maxey, Pugh, and Vest — all Democrats — took part in the debate, and fifteen other Democratic Senators were present, as a roll-call disclosed a little later; yet the two Ingalls amendments were adopted, *nem. con.*, as was also the Aldrich amendment, with which they were incorporated.

According to the last annual report of the Treasurer of the United States, the coin certificates outstanding were of the following kinds and denominations: —

	Silver.	*Gold.*
$1	$27,907,971	
2	20,237,665	
5	85,579,740	
10	87,436,623	
Total less than $20	$221,161,999	
$20	35,109,616	$10,979,102
50	3,458,810	8,443,350
100	2,325,820	11,647,100
500	346,500	11,075,500
1,000	227,000	21,213,500
5,000		37,000,000
10,000		53,690,000
	$262,629,745	$154,048,552

To determine the preferences of the public for gold and silver certificates, we have to consider only the denominations of $20 and upwards. It appears that of these competing denominations the public holds $154,048,552 of gold and only $41,467,747 of silver, and that of the latter all except $6,358,130 are of the denomination of $20.

* See the Act of July 12, 1870, Sect. 3, providing that, "upon the deposit of any United States bonds bearing interest payable in *gold*," a certain class of banks might be formed known as gold banks. This was distinctly a case of "unconscious cerebration," since there was no particular description of bonds bearing interest payable in gold. All were so payable, or none were. At this time the silver dollar was still an authorized coin.

Since it is as easy to get gold certificates as silver ones, both costing the public one hundred cents gold for each dollar, why should anybody take silver instead of gold when all are mindful that a silver crisis *may* come sometime? There ought to be an economic answer to this question.

Such an answer is found in the practice adopted by the Treasury in September, 1880, and continued until January, 1885, as Professor Taussig mentions, of carrying silver certificates from New York to the West and South free of expense. Silver certificates alone were "dead-headed" to the places where currency was wanted. The rate of exchange was sufficient to cause bankers to prefer silver certificates to gold certificates of the $20 denomination and to pay gold in order to get them. Twenty-dollar certificates enter into general circulation. They pass from hand to hand. If the public has entire confidence in their goodness, they will stay out until they are so much worn that they need renewal, although a certain small proportion will drift back when the rate of exchange sets in favor of New York. The number of twenty-dollar silver certificates reached its maximum in 1885, being, on June 30, $52,010,960. The volume since that time has been on the whole declining, although there was a slight rise in 1887.*

I cannot conceive of any other reason than the one given why any silver certificates should have been taken out of higher denominations than $10, when gold certificates were to be had on the same terms.

* The movement of the twenty-dollar certificates since the policy of free shipment was discontinued has been as follows: —

Year.	*Amount.*
1885,	$52,010,960
1886,	44,479,850
1887,	50,629,010
1888,	43,840,160
1889,	35,109,610

When we examine the higher denominations, which circulate little, except between banks, we find that the silver certificates drop off suddenly, and that the gold issues have the field almost exclusively. The reason for this of course is that the banks prefer not to take any risks of a silver crisis. As silver certificates are as easy to handle and to count, there is no other reason why gold should be preferred; but this reason is quite sufficient. The New York banks receive silver certificates, but do not pay them out on checks unless they are expressly called for, and do not extend hospitalities to them above twenty-four hours. They are "turned in" to the sub-treasury at the first clearing.

By a silver crisis, I mean the occurrence of any premium, however slight, of gold dollars over silver dollars. No such premium can occur as long as the government is both able and willing to pay to its general creditors the kind of money they prefer to receive. Its general creditors are all of its creditors except the holders of the gold and silver certificates. These are entitled to receive the kind of money inscribed on the face of the paper they hold. Practically, however, all of its creditors now stand on the same footing, since the holders of silver certificates can always turn them in to pay government dues. That the Secretary of the Treasury, whatever political party he may belong to, will always be willing to keep the different kinds of currency at par with each other as long as he is able to, I have no doubt. The consequences of not doing so are of unknown gravity, and because unknown will never be voluntarily incurred.

Among the measures proposed during the present session of Congress, two have features of quite a novel kind. One of these, the Windom bill, has been touched upon by Professor Taussig. The other, the Senate Finance Committee's bill, provides for the purchase at the market price by the Treasury of $4,500,000 worth of

silver bullion each month, to be paid for by Treasury notes, which are to be "redeemable on demand in lawful money of the United States," to be receivable for all government dues, and to be available as reserves of the national banks. Section 3 provides that the Secretary *shall* coin as much of the bullion purchased as may be necessary to provide for the redemption of the Treasury notes issued. This defines the term "lawful money" as used above. It means redemption in silver dollars exclusively. It repeals the existing two millions per month law. It provides for the purchase of gold bullion, also, without limit; but, since the gold bullion is to be paid for in Treasury notes, which may be redeemed in "lawful money," and since Section 3519 of the Revised Statutes, which provides for coining gold bullion for the account of the owner, is not repealed, this clause of the bill may be disregarded. Holders of gold bullion will continue to avail themselves of Section 3519.

The first noticeable thing in this bill is that it proposes a new addition to the circulating medium: Treasury notes which are not legal tender, although convertible into legal tender, which arise from the purchase of silver bullion, and pass into the hands of the bullion sellers at the rate of $4,500,000 per month. As these notes are receivable for duties and taxes, any excess not required for circulation will come back to the Treasury. Professor Taussig's estimate of fifteen or twenty millions per annum as the probable amount of "large change" that might be added to our circulating medium for some time to come, to keep pace with the increase of population and retail trade, seems to be justified by experience. If this is a substantially correct estimate, there would be an addition of thirty to forty millions to the government's disbursements, or whatever the difference between the payments for bullion and the takings of the circulation might prove to be. It will be of no advantage to the holder of the

new Treasury notes that he can draw "lawful money of the United States" for them. Paying government dues with them comes to the same thing as long as there are any government dues to be paid, and is much more con-convenient than lugging silver dollars away from the Treasury.

As Professor Taussig says, the government has hitherto been able to maintain gold payments only because its total income has exceeded its total expenses. Let the balance stand on the other side of the ledger, and its ability vanishes. It makes no difference whether the excess of expenditure comes from too much pension-paying or too much bullion-buying or too much tax-repealing. There is now a surplus of $44,000,000 per annum over and above all payments, including those for the sinking fund. The bill proposes to add $34,000,000 to present disbursements, leaving $10,000,000 of surplus. If this surplus can be relied upon, if it is not swept off the balance-sheet by increased appropriations, and if the public continue to buy silver certificates at the same rate as before, gold payments can still be maintained. But it would not be possible to continue the bond purchases, except to the prescribed amount of the sinking fund. The excess of silver bought over and above the takings of the public would accumulate in the Treasury. The upshot of the whole business would be that the government had deemed it wiser to invest its surplus in silver bullion than in the payment of its interest-bearing debt.

Some years ago, in a review of a speech of Senator Beck's, I expressed the opinion that, under existing legislation,* the silver crisis will come, if at all, as the greenback crisis came, and will follow the same course, the gold premium being very slight at first and increasing slowly, and stopping at the point where gold and silver bullion are at equipoise with each other in the market.

* Written June 1.

The premium on gold or the discount on silver, whichever we choose to call it, may be arrested, if it comes, by fresh legislation. The people who have silver dollars, silver certificates, greenbacks, and national bank-notes in their pockets or on deposit in bank, for which they have paid, in labor or property, one hundred cents per dollar gold value, may demand of Congress that their money be restored to that value. If they do so demand, in some way it will be done. The banks cannot hold the immense mass of deposits and clearings at the gold standard, when the government's legal tender notes are redeemed only in silver. The premium on their gold will be the property of their shareholders, and may be applied to an extra dividend or added to their surplus. It is a fact of some significance that the amount of gold held by the national banks of New York City exceeds their capital, and that the amount of gold and legal tender notes is about equal to their capital and surplus together.*

The question whether the people would at once demand that parity be restored no man can answer. A certain number probably conceive that with the silver standard they would be able to pay mortgages and other debts at less value. But the temper of lenders has to be taken into account also. Very few debtors are able to pay all at once without borrowing again. Lenders will see to it that in the next contract their money does not go where it becomes a diminishing quantity. Nobody can answer for popular caprice. The deliberate judgment of the people after a sufficient experience with the silver standard to test its realities is another matter. We see all the nations of the earth adopting the single gold standard as soon and as fast as they become rich enough to afford it.

* The figures given in the last report of the Comptroller of the Currency for September 30, 1889, are: —

Banks of New York City: —

Capital,	$48,850,000	Surplus,	$33,094,329	Total,	$81,944,329
Specie,	59,087,892	Legal tenders,	18,209,227	"	$77,297,119

It is highly probable that, when we shall have had their experience with silver, we shall do as they have done and are doing.

The question is sometimes asked whether it would not be best to let the silver advocates have their way and get cured by a dose of the medicine they have been so long clamoring for. The answer, as I conceive, should be something like this: When the silver advocates are strong enough, they *will* have their way; but it is not for the friends of sound finance to lend them any votes, or to retire from the field, or to do less than resist them by all fair and lawful means. At the same time, I think that, if the Bland free coinage bill had passed in 1878 instead of the Allison amendment, we should have gone through our measles long ago and got rid of silver, except as a subsidiary coin, and should not now be encumbered with $300,000,000 of a metal that we do not want. The silver now stored in the Treasury would have entered into our foreign commerce, and we should be richer by that sum. For my own part, I ceased long ago to borrow trouble about silver. Nations never learn anything satisfactorily about their bread and butter except by their own experience. If we could learn anything by the experience of others, we have Mexico and India before us as present examples.

HORACE WHITE.